World economic crisis: From predicted stagnation to depression

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Part I

1) The long waves model. The financialised neoliberalism of State

2) World crisis process description: 2008-2013.

3) Post 2008 crisis. Cycles are still alive.

Long waves model (E. Mandel)

- Capital accumulation is guided under the influence of general profit rate, although in a not mechanic nor exclusive way.

- Profit rate is influenced by several factors:

A) Sociopolitical and capital-labor relationship: exploitation rate.

B) **Technical and economic ones** (organic composition of capital)

C) Evolving within broad socioeconomic and historic environment

D) Geopolitical and politcal framework.

- Recesion needs both a fall of profit rate and profit mass decline (business volumen and economic activity) happening at the same time.

Long wave tendencies

- There have happened four long waves in capitalist history. Their periodicity have been around each 45-50 years, though there is no beforehand preset duration.

- The behavior of accumulation tendeny within each long wave has caused prosperity periods, around 25 years, followed by a period of relative declination in the growth rythm.

- There are internal business cycles within each long wave, around of 5-9 years of duration each. The speed of them increased due to capital rotation more accelerated tendencies, replacing fix capital more quickly.

- **However, while the path to a weaker phase is inevitable under the profit and labor value logic, the transition to a new long wave of prosperity needs external factors to the internal dinamyc of the long wave.** Then, sociopolitical factors, economic (new market opportunities) and technological factors become decisive.

2008-2013 crisis

Causes

- **Efective Profit rate declination**. Low productivity growth, low investment and innovation rate.
- **Higher financial costs,** mostly because private debt increase.
- **Banking crisis**, USA (Lehman Brothers). Trigering factor
- International markets stagnation. Emerging countries.

Impacts and replies

- Great recession in central economies
- Capital concentration
- Unemployment. Discipline factor to make a generational substitution of well-paid Jobs for precarious employment.

- New public policies to privilege and protect the capital in serious difficulties. Bali-outs, Quantitative Easins Monetary policy, social cuts, social and labour rights erosion, losses and private debt socialisation.
- Growth, even though is siightly lower, still keep strong, in emergent countries.
- However, peripheral countries are more inestable.

The financialized model of the Neoliberalism of State

- The Neoliberalism opted for combating the overproduction crisis with a mix of old and new recipes. On one hand, through **structural adjustment** (privatisations, social and labour rights devaluation, worse social policies). On the other, through facilitating to indebt the economy, mostly the private sector with easy credit, and families with long term mortgages.

- **Expansive monetary policies** have been applied. Although the financial sector and private economy were priviliged in this regard, in detrimental of public sector.

- **Strong financial deregulation** relaxed the soundness of **banking system** and financial markets, created hazard moral transferring economic risks towards public sector, small companies, and families.

- **Lower tax burden of capital and equity**. Cuts in public services, social policies, and real wage moderation.

- Public policy: **Generosity with capital, social austerity**, and externalisation of public services.

2009-2019 cycle: recession, partial recovery and stagnation

STAGES

The 2009-2019 cycle is divided into:

- Recession or stagnation. 2008-2013.
- Soft recovery. 2013-2018.
- Beginning of a cycle of stagnation or crisis. 2019- ...

Uneven development in the recovery 2013-2018

- In the advanced countries, the US maintains strong growth until 2019.
- Japan and the EU until 2017 recover at a strong pace.
- United Kingdom stagnates throughout the period
- 2018 marks the change in the trend towards general stagnation.
- 2019 will open the crisis in some central countries, such as Germany or Italy.
- On the other hand, the emerging powers only moderate their strong growth slightly. They will do so thanks to the Chinese policy of endogenous development and commercial opening, or by the relocation of Western investments in Eastern Europe and Asia.

Part II. Determining and ruling factors of the crisis.

1) **Determining factors**

2) **Ruling factors.**

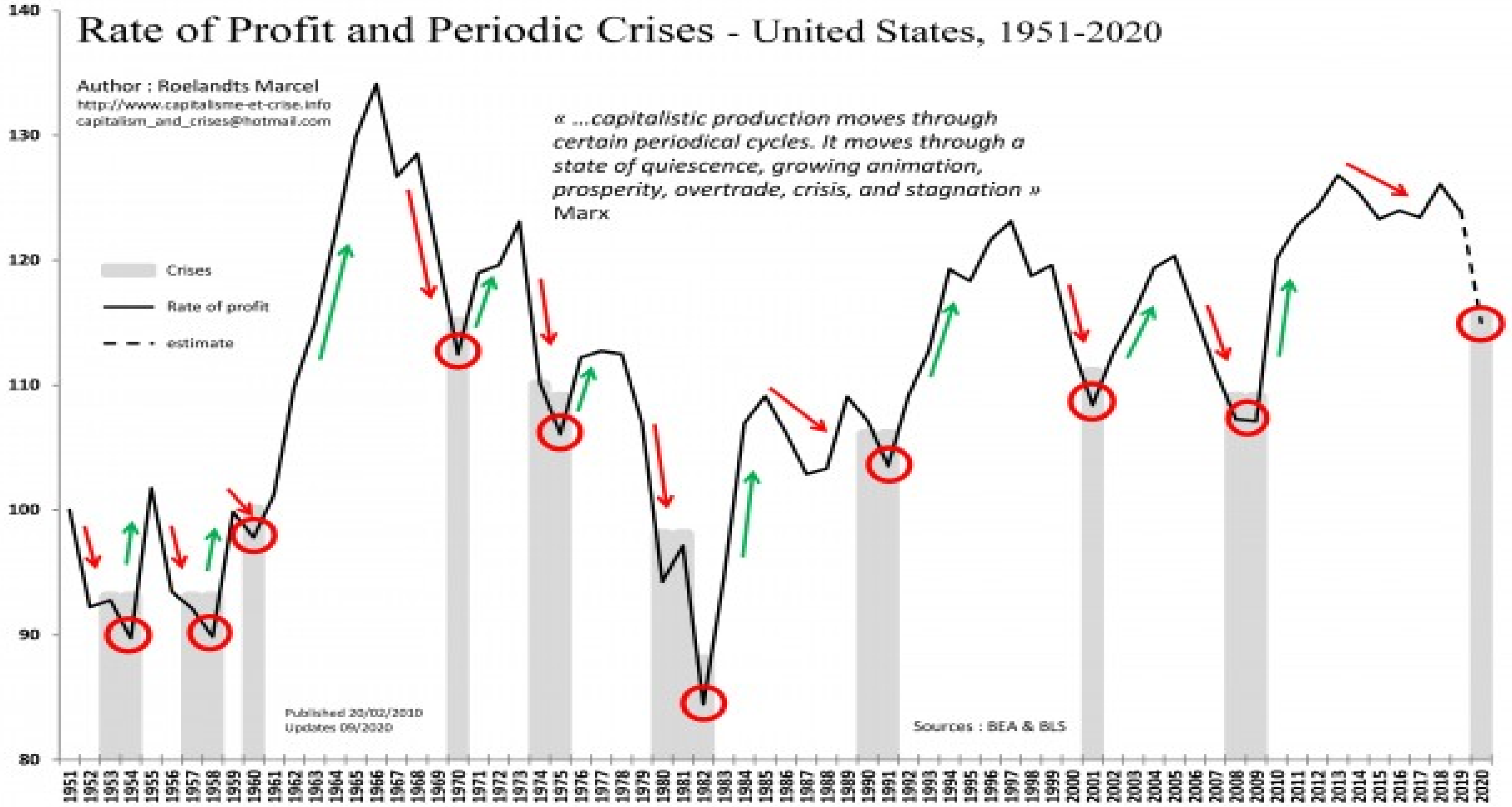
Determining Factors of the Crsisis.

- Evolution of the **effective profit rate** (gross profit rate minus financial costs). Late capitalism today has a duration of almost 70 years. Global accumulation rates slow down worldwide but only in the 2008-2013 period there was a great recession. This causes low investment rates or, if any, relocation to territories and activities with higher return rates.

- **Exploitation** and **unequal distribution of income and wealth**. The significant rise in the exploitation rate does not offer sufficient conditions for a lasting upward accumulation rate. However, since capital rules out the destruction of fictitious capital as an option, it will focus on hardening exploitation conditions.

- **Depletion of raw materials of modern industry and the energy crisis**. End of the low price of raw materials of modern industry, although there is a great temporary instability in the price of oil (fracking, geopolitical tensions). The energy crisis may determine a permanent and irreversible contraction dynamic in the future. Climate chaos is a symptomatic process of an unsustainable energy model with serious repercussions.

- **Class struggle process**.


Rate of Profit and Periodic Crises - United States, 1951-2020
Author : Roelandts Marcel
http://www.capitalisme-et-crise.info
capitalism_and_crises@hotmail.com
« ...capitalistic production moves through certain periodical cycles. It moves through a state of quiescence, growing animation, prosperity, overtrade, crisis, and stagnation »
Marx
Crises
Rate of profit
estimate
Published 20/02/2010
Updates 09/2020
Sources : BEA & BLS
140
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1951 1952 1953 1954 1955 1956 1957 1958 1959 1960 1961 1962 1963 1964 1965 1966 1967 1968 1969 1970 1971 1972 1973 1974 1975 1976 1977 1978 1979 1980 1981 1982 1983 1984 1985 1986 1987 1988 1989 1990 1991 1992 1993 1994 1995 1996 1997 1998 1999 2000 2001 2002 2003 2004 2005 2006 2007 2008 2009 2010 2011 2012 2013 2014 2015 2016 2017 2018 2019 2020

Ruling Factors

- **Stagnation of productivity**. **IV Industrial Revolution ?.I**nnovation and automation process modifies the organization of sectoral work, centralizes the market power and control of labor and consumers / users of social networks, rationalizes costs (administrative, communication, organization), but does not raise productivity (R .SOLOW: "You may see computers on all sides except in the productivity indicators").

- **The rise of private corporate debt**. The socialization of private debts and their conversion into public debt.

- **Conflict over international hegemony**. China plays a new role. Disconnection of international accumulation or relative dependence on world dynamics being a new power?

Parte III Triggers of a new crisis / stagnation

1) Potential triggers.

2) Trade war A hierarchical and rivalry globalization ?.

3) Financialization in perspective. Is it enough to end the practices of rentier capital to avoid new crisis or more inequality?

Trigger factors new crisis

- Trade, fiscal and Currency war (foreign exchange). China, USA, United Kingdom (Brexit) …

- **Possible new financial and banking crisis.** USA, Spain, Germany, Italy … The solvency of European banks deteriorates again (Afi) and in case of stagnation, their reduced commercial margins could affect seriously some large bank (Deutsche Bank).

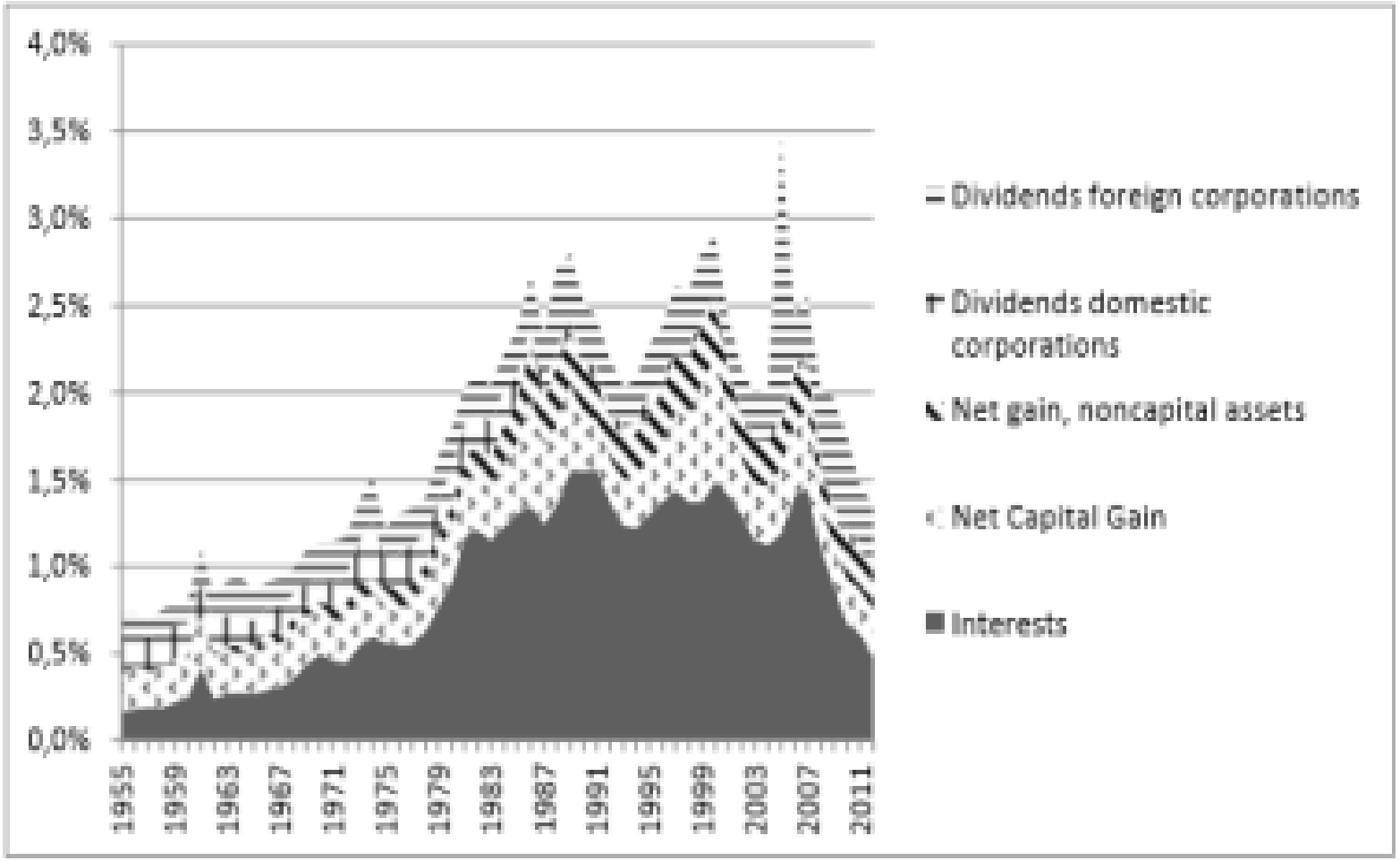
  It could also be triggered by a bankruptcy of some Great Technological company given its growing size.

- Although there is a postponement of the end of the **expansive monetary policy** (quantitative flexibility, purchase of corporate debt and low interest rates), **its capacity to cushion the cycle is exhausted**.

  All these factors narrow the profitability and business options, as well as capital accumulation.

Financialization, to what extent?.

Figure 6. Financial Income as percentage for total income, NFCs, 1955-2012. Source: IRS.



- The surplus of global capital has evolved increasingly until 2007. Then it declined.

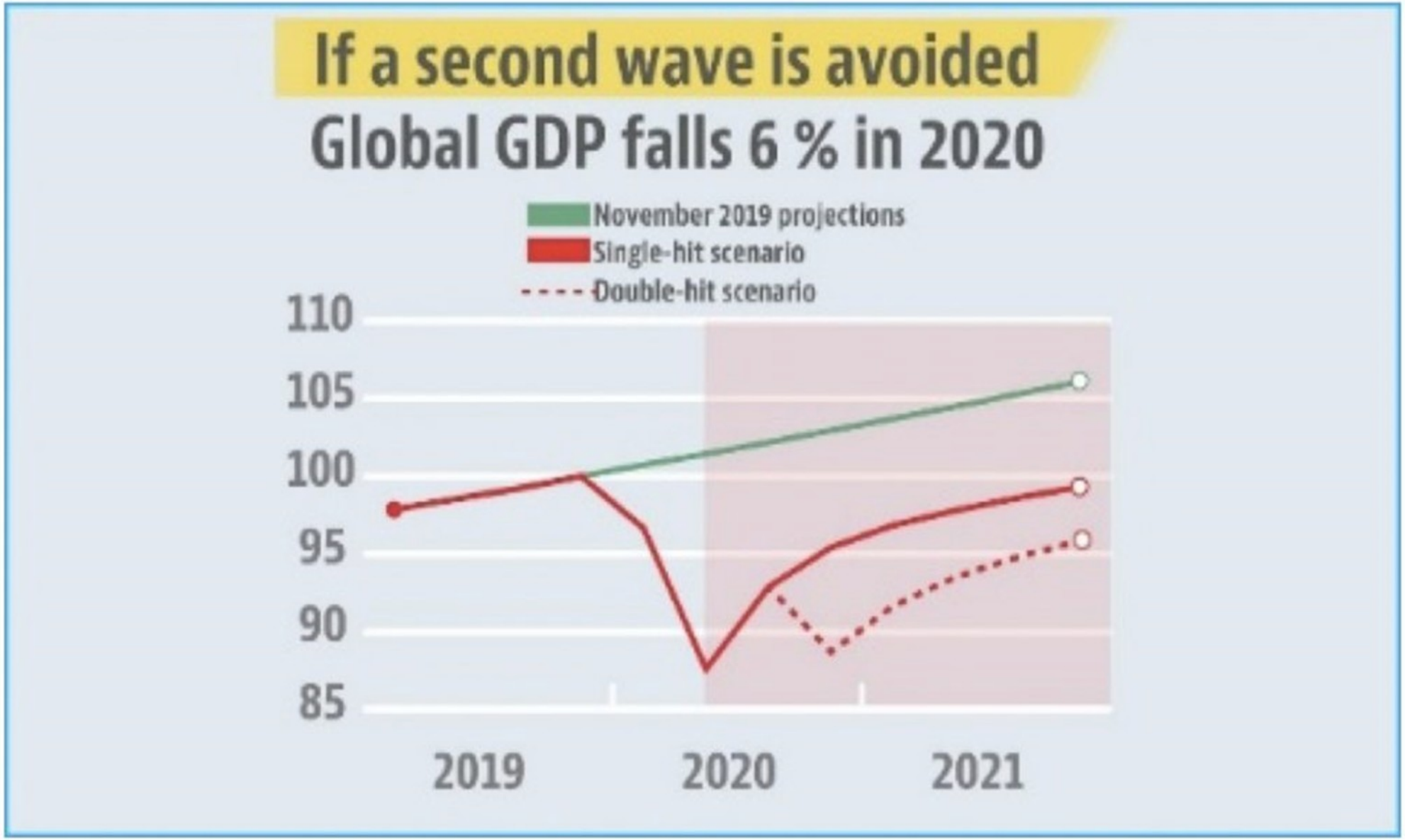
The income (interest) of the rentier capital over the capital as a whole has followed its same evolution, occupies a significant proportion, but does not replace it.

But the return on rentier capital is associated with the possibilities of industrial capital.

In addition, a large part of these forms of capital are different expressions of the same interests, sometimes complementary, sometimes simultaneous, being the same who have stocks or bonds.

The world economic impact of Covid-19

- The year 2020 will be remembered for the Covid-19 pandemic. There has already been a loss of one million lives from Covid-19 at global level.
- It has led to strong restriction measures, which has meant hibernation or putting the economy to idle for months.
- The world economy has been in a depression unprecedented since 1929. The IMF forecasts a decline in the world economy of 5.2% by the end of the year. The recovery will take a slow pace, after a drastic decline.
- An unprecedented expansionary monetary policy by the Central Banks is being prolonged and intensified among public policies, and a policy of suspension of the doctrine of fiscal consolidation is accepted in most governments to try not to lose more jobs or sink further the economic activity.
- The worst-off countries are those that depend on personal service activities and those specialized in oil exports, in favor of manufacturers.
- China, although with a growth of just 1.9%, is the only country with positive growth in 2020, according to the IMF, where emerging countries and advanced economies will have suffered this year a depression of about 6% drop in activity. In 2021, worldwide the recession will last in 2021 with decreases of -3.5%, with an additional negative impact on the distribution of world per capita income.
- World sovereign debt reaches 100% of world GDP and the problem of global public and private debt is intensifying.


If a second wave is avoided
Global GDP falls 6 % in 2020
November 2019 projections
Single-hit scenario
Double-hit scenario
110
105
100
95
90
85
2019
2020
2021